

Division of Securities
Utah Department of Commerce
160 East 300 South, Second Floor
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:

BLACKSMITH MANAGEMENT GROUP,
INC., and
BENNIE SMITH JR.,

Respondents.

NOTICE OF ENTRY OF
DEFAULT AND ORDER

Docket No. SD-06-0055
Docket No. SD-06-0056

I. BACKGROUND

A formal adjudicative proceeding was initiated by the Division's Order to Show Cause and Notice of Agency Action dated August 8, 2006, against Blacksmith Management Group, Inc. (Blacksmith) and Bennie Smith Jr. (Smith). The Division has moved for entry of a default judgment against Blacksmith and Smith.

II. FINDINGS OF FACT

1. On August 4, 2006, the Division commenced a formal adjudicative proceeding by issuing an Order to Show Cause (OSC) and Notice of Agency Action (Notice) to Blacksmith and Smith.
2. The Division received notice from the United States Postal Service on August 21st, August 28th, and September 5th, 2006, that delivery of the OSC and Notice upon Blacksmith and Smith was not successful.
3. At the September 8, 2006 initial hearing, the presiding officer, Wayne Klein, requested that the Division continue its attempts to serve Blacksmith and Smith with the OSC and Notice, for at least thirty days.
4. Having received no new information regarding the whereabouts of Blacksmith and Smith, the Division was not able to serve them with actual notice.
5. As of November 1, 2006, neither Blacksmith nor Smith have filed a response to the August 4, 2006 OSC.
6. Blacksmith was registered as a Utah corporation January 5, 2001, but its corporate status expired on May 6, 2004. Blacksmith's business address was 510 South 600 East, Salt Lake City, Utah, and Bennie Smith Jr. was the president and sole director.
7. Bennie Smith Jr.'s (Smith) last known address is in Maricopa County, Arizona.
8. From March 2002 to January 2004, Smith solicited two investments in Blacksmith, totaling \$150,000, from a Utah investor (Investor).

9. In 2001, Investor loaned \$166,000 to Smith, and received a promissory note secured by real property in return. Investor was paid all but \$32,000 on this loan and agreed to roll the \$32,000 into a new promissory note with Smith, which she received in October 2002.
10. In March 2002, Smith called investor and told her Blacksmith had acquired a small government contract in Ohio, and the details of the contract were confidential (the Ohio Project). To begin the Ohio Project, Smith told Investor he needed \$8,000 to purchase a trailer and several computers.
11. Smith told Investor he would provide her with a promissory note bearing 10% annual interest, and that it would be secured by real property located in Las Vegas, Nevada. Smith also told Investor the real property was worth \$2.5 million and was free and clear of any encumbrances.
12. On March 22, 2002, Investor obtained a cashier's check made payable to Smith in the amount of \$8,000. Investor deposited the check directly into Smith's bank account a few days later.
13. In May 2002, Smith telephoned Investor and said he needed more money for the Ohio Project.
14. Investor obtained two cashier's checks, one on May 13, 2002 and one on June 21, 2002, which together totaled \$35,000. Both checks were made payable to Smith, and were deposited by Investor into Smith's bank account within a few days of each checks' issue date.

15. On October 24, 2002, Smith gave Investor a promissory note for \$75,000, and a deed of trust to real property in Las Vegas. The promissory note was between Smith and Investor, and was signed by Smith. Smith gave Investor the \$75,000 promissory note in return for her \$32,000 investment which she rolled over in March 2002, her \$8,000 investment from March 2002, and her \$35,000 investment from May and June 2002.
16. On April 8, 2003, Investor received a letter and notice of default from Old Republic Title Company (Title Company) regarding the real property in Las Vegas. When Investor contacted the Title Company, a representative told her the property had several liens against it and that a foreclosure may affect her secured interest.
17. When Investor confronted Smith with this information, he said there was still sufficient equity in the property to secure her investment, and that he was trying to finalize the sale of the property before the foreclosure date.
18. On July 10, 2003, Investor received a notice from the Title Company that her interest in the Las Vegas property had been foreclosed upon, and she would receive no money from the foreclosure.
19. Investor confronted Smith regarding the foreclosure notice, and Smith told her he was in the process of acquiring a contract for a project that would make millions, and if he was able to secure the contract, he would pay her back.
20. A couple of days after confronting Smith, Smith told Investor that Blacksmith had established a contract in Houston, Texas (the Texas Project) for \$20 million, and that he

would pay Investor with the proceeds. Smith told Investor the Texas Project was a secret government contract and he could not disclose the details.

21. Between February and September 2003, investor received four interest payments from Smith totaling \$4,100.
22. In January 2004, Smith telephoned Investor and told her Blacksmith had acquired a contract in Florida to manufacture 50,000 doors (the Door Project). Soon thereafter, Smith showed Investor the business plan for the Door Project.
23. On January 15, 2004, Smith telephoned Investor and told her he needed \$75,000 to purchase equipment for the Door Project. Smith told Investor he would give her a promissory note bearing 10% annual interest and secure the note with the purchased equipment. Later that same day, Smith emailed Investor a list of the equipment to be purchased.
24. Investor told Smith she would invest in Blacksmith, but that she would have to use the equity in her home.
25. On January 20, 2004, using the equity in her home, Investor obtained a cashier's check for \$75,000 made payable to Blacksmith, and gave it to Blacksmith's receptionist. That same day, Blacksmith's receptionist gave Investor a promissory note which included interest of 10% per year and a maturity date of January 20, 2007. The promissory note was between Smith and Investor, and was signed by Smith.

26. Investor noticed that the maturity date on the note was incorrect. Investor immediately telephoned Smith and told him the note was supposed to mature in 6 months to a year. Smith told Investor he had not seen the note, and would give Investor a new note with the correct maturity date.
27. Investor received two interest payments, one on February 3, 2004 and one on March 22, 2004, totaling \$4,900. The first payment check was from Blacksmith and was signed by the receptionist, and the second was a personal check from Smith.
28. On March 23, 2004, Investor tried to contact Smith on his cell phone to inquire about the corrected promissory note, but his mobile phone service had been terminated. Investor sent several emails to Smith requesting the corrected note, but Smith failed to respond.
29. In June 2004, Investor was told by an employee of Blacksmith that the purchased equipment was being held by Blacksmith's landlord because Smith had not paid the rent. The same employee told Investor the equipment was owned by another employee of Blacksmith, not Smith.
30. On August 5, 2004, Investor filed a lawsuit in Third Judicial District Court against Smith to recover her investments. On September 23, 2004, Investor obtained one judgment against Smith for \$163,688. On December 1, 2004, Investor obtained a second judgment against Smith and Blacksmith for \$150,000 and \$75,000 in punitive damages, respectively. Investor's judgments against Smith and Blacksmith are both outstanding.

Misrepresentations and Omissions

31. In connection with the offer and sale of a security to Investor, Smith and Blacksmith, directly or indirectly, made false statements, including, but not limited to, the following:
- a. That Smith and Blacksmith had obtained a contract for Texas Project and the Door Project, when, in fact, this was not true;
 - b. That the real property in Las Vegas that would secure Investor's investment was free and clear of all encumbrances and was worth \$2.5 million, when, in fact, there were three liens against the real property that totaled \$1,260,000;
 - c. That Investor's money would be used to purchase a trailer and computers for the Ohio Project, when, in fact, Smith used some of Investor's money to pay personal expenses such as medical bills and loan payments to First USA Bank on established loans. Smith also converted some of Investor's money into cash; and
 - d. That Investor's investment would be secured by the equipment purchased with her money, when, in fact, Smith had no reasonable basis on which to make this representation. Smith did not secure Investor's investment with any type of collateral.
32. In connection with the offer and sale of a security to Investor, Smith and Blacksmith, directly or indirectly, failed to disclose material information, including, but not limited to, the following:
- a. That Smith had over \$1.5 million in outstanding civil judgments against him;

- b. That the real property in Las Vegas was encumbered by three liens totaling \$1,260,000;
- c. That Smith would use Investor's money for personal expenses;
- d. That with the possible exception of the Ohio Project, Blacksmith had acquired no contracts for work;
- e. Some or all of the information typically provided in an offering circular or prospectus regarding Blacksmith, such as:
 - i. The business and operating history for Blacksmith;
 - ii. Identities of Blacksmith's principals along with their experience in this type of business;
 - iii. Blacksmith's financial statements;
 - iv. The market for the product of the company;
 - v. The nature of the competition for the product;
 - vi. Current capitalization of the issuer;
 - vii. A description of how the investment would be used by the business;
 - viii. The track record of the company to investors;
 - ix. Risk factors for investors;
 - x. The number of other investors;
 - xi. The minimum capitalization needed to participate in the investment;

- xii. The disposition of any investments received if the minimum capitalization were not achieved;
- xiii. The liquidity of the investment;
- xiv. Discussion of pertinent suitability factors for the investment;
- xv. The proposed use of the investment proceeds;
- xvi. Any conflicts of interest the issuer, the principals, or the agent may have with regard to the investment;
- xvii. Agent commissions or compensation for selling the investment;
- xviii. Whether the investment is a registered security or exempt from registration; and
- xix. Whether the person selling the investment is licensed.

III. CONCLUSIONS OF LAW

- 33. The service of the OSC and the Notice initiating these proceedings is valid upon Blacksmith and Smith.
- 34. Because Blacksmith and Smith failed to file a written response to the August 4, 2006 OSC, they are in default.
- 35. The promissory notes offered and sold by Blacksmith and Smith are securities under the Utah Uniform Securities Act (the Act).
- 36. In connection with the offer and sale of securities, Blacksmith and Smith misrepresented material facts to Investor.

37. In connection with the offer and sale of securities, Blacksmith and Smith failed to disclose material information to Investor which was necessary to make the statements made not misleading.
38. By this conduct, Blacksmith and Smith violated § 61-1-1(2) of the Act.

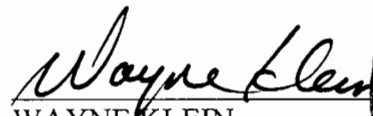
IV. ORDER

Based on the above, the Director hereby:

1. Declares Blacksmith Management Group, Inc. and Bennie Smith Jr. in default for failing to file a written response to the August 4, 2006 OSC.
2. Enters, as its own findings, the Finding of Fact described in Section II above.
3. Enters, as its own conclusions, the Conclusions of Law describe in Section III above.
4. Finds that Blacksmith Management Group, Inc. and Bennie Smith Jr. willfully violated the Utah Uniform Securities Act by misrepresenting material facts in connection with the offer and sale of securities in or from Utah in violation of § 61-1-1(2).
5. Finds that Blacksmith Management Group, Inc. and Bennie Smith Jr. willfully violated the Utah Uniform Securities Act by omitting to disclose material information in connection with the offer and sale of securities in or from Utah in violation of § 61-1-1(2).
6. Orders Blacksmith Management Group, Inc. and Bennie Smith Jr. to permanently CEASE and DESIST from any violations of the Act.
7. Orders Blacksmith Management Group, Inc. to pay a fine of one hundred thousand dollars (\$100,000) to the Division, by January 31, 2007.

8. Orders Bennie Smith Jr. to pay a fine of one hundred seventy five thousand dollars (\$175,000) to the Division, by Wednesday, January 31, 2007.

DATED this 1st day of November, 2006.



WAYNE KLEIN

Director, Division of Securities



Pursuant to § 63-46b-11(3), Respondent may seek to set aside the Default Order entered in this proceeding by filing such a request with the Division consistent with the procedures outlined in the Utah Rules of Civil Procedure.

Certificate of Mailing

I certify that on the 3RD day of November 2006, I mailed, by certified mail, a true and correct copy of the Notice of Entry of Default and Order to:

Bennie Smith Jr.
3334 East Jacinto
Mesa, AZ 85204-7300

Certified Mail # 7006 0100 0001 7688 9111

Bennie Smith Jr.
222 Farragut St. NW 106
Washington, DC 20011

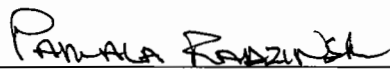
Certified Mail # 7006 0100 0001 7688 9128

Bennie Smith Jr.
1931 Westchester Dr.
Silver Spring, MD 20902

Certified Mail # 7006 0100 0001 7688 9135

Blacksmith Management Group, Inc.
510 South 600 East
Salt Lake City, UT 84102

Certified Mail # 7006 0100 0001 7688 9142



Executive Secretary